

KINGMAN AIRPORT AUTHORITY, INC.

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2008

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KINGMAN AIRPORT AUTHORITY, INC.
ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2008

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors of the
Kingman Airport Authority, Inc.

We have audited the accompanying financial statements of the business-type activities of the Kingman Airport Authority, Inc. (Authority), as of and for the year ended June 30, 2008, which collectively comprise the Kingman Airport Authority, Inc.'s basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Kingman Airport Authority, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Kingman Airport Authority, Inc., as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3.A., a prior period adjustment was necessary to correct errors made in the previously issued financial statements.

The management's discussion and analysis on pages 3 - 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2008 on our consideration of Kingman Airport Authority, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Cronstrom, Osuch & Company, P.C.

Cronstrom, Osuch & Company, P.C.

December 10, 2008

Management's Discussion and Analysis

We (the Kingman Airport Authority, Inc. (Authority)) are pleased to provide an overview of our financial activities for the fiscal year ended June 30, 2008. The intended purpose of Management's Discussion and Analysis (MD&A) is to provide an introduction to the basic financial statements and notes, that provides an objective and easy to read analysis of our financial activities based on currently known facts, decisions, and conditions, by providing an easily readable summary of operating results and reasons for changes, which will help to determine if our financial position improved or deteriorated over the past year. This report addresses current operational activities, the sources, uses, and changes in resources, adherence to budget, service levels, limitations, significant economic factors, and the status of infrastructure and its impacts on our debt and operation.

Financial Highlights

- ◆ The assets of the Kingman Airport Authority, Inc. exceeded its liabilities at the close of the most recent fiscal year by \$20,772,906 (net assets). Total net assets include \$17,062,138 in capital assets net of related debt and \$3,710,768 in unrestricted assets.
- ◆ The Kingman Airport Authority, Inc.'s operations produced an operating loss of \$1,595,745 for the fiscal year. Although much of this loss can be attributable to non-cash depreciation expense on assets that were contributed by the federal government or acquired with the aid of grants, the Authority still relies on revenue from the building space and hangars that are continually leased to other parties.
- ◆ During the year total net assets increased by \$1,254,685. This increase was mainly due to land sales.
- ◆ Lease revenues decreased by 24% (\$124,386) to \$385,519.

Overview of the Financial Statements

This discussion and analysis serves to introduce the Authority's basic financial statements. The Authority's basic financial statements have two components: 1) fund financial statements, and 2) notes to the basic financial statements. Separate government-wide financial statements are not presented since the Authority has only one fund.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Kingman Airport Authority, Inc., like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Unlike most other governments, which have multiple funds, all of the Authority's activities are business-type activities and are accounted for in a single proprietary fund.

Proprietary funds. The Kingman Airport Authority, Inc. maintains its accounting records in a single enterprise fund. An *Enterprise fund* is a type of proprietary fund used to report *business-type activities*.

The basic proprietary fund financial statements can be found on pages 10 - 13 of this report.

The *statement of net assets* presents information on the Authority's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as useful indicators of whether the financial position of the Authority is improving or deteriorating.

The *statement of revenues, expenses and changes in fund net assets* presents information on how the Authority's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Notes to the basic financial statements. The notes to the basic financial statements (pages 15 - 25) provide additional information that is essential to a full understanding of the data provided in the fund financial statements and should be read with the financial statements.

Financial Analysis

Net assets may serve as useful indicators of a government's financial position. At the end of the fiscal year, the Kingman Airport Authority, Inc.'s assets exceeded liabilities by \$20,772,906.

Airports are capital-intensive enterprises. Approximately 82% of the Authority's net assets are invested in capital assets, less any related debt used to acquire those assets that is still outstanding. The Authority uses these assets to provide aviation access and services to the flying public and the surrounding community; consequently, these assets are not available for future spending. Although, the Authority's investment in capital assets is reported net of related debt, the resources needed to pay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Kingman Airport Authority, Inc. Net Assets June 30, 2008 and 2007 (restated)

	<u>2008</u>	<u>2007</u>	<u>% Change</u>
Current and other assets	\$ 3,875,691	\$ 5,241,590	(26.1)%
Capital assets, net of accumulated depreciation	<u>17,441,158</u>	<u>15,075,624</u>	15.7
Total assets	<u>21,316,849</u>	<u>20,317,214</u>	
Long-term liabilities	200,925	520,020	(61.4)
Other liabilities	<u>343,018</u>	<u>278,973</u>	23.0
Total liabilities	<u>543,943</u>	<u>798,993</u>	
Net assets:			
Invested in capital assets, net of related debt	17,062,138	14,629,969	16.6
Unrestricted	<u>3,710,768</u>	<u>4,888,252</u>	(24.1)
Total net assets	<u>\$ 20,772,906</u>	<u>\$ 19,518,221</u>	

Net assets increased by \$1,254,685, or 6% from the previous fiscal year-end. This was primarily due to land sales during the fiscal year. Much of that revenue has yet to be spent on capital projects.

Business-type activities

All of the Authority's activities are classified as business-type activities. At the end of the current fiscal year, the Kingman Airport Authority, Inc. is able to report a positive balance in its net assets.

Kingman Airport Authority, Inc.
Changes in Net Assets
Fiscal Years Ended June 30, 2008 and 2007 (restated)

	<u>2008</u>	<u>2007</u>	<u>% Change</u>
Revenues:			
Leases	\$ 385,519	\$ 509,905	(24.4)%
Capital grants and contributions	1,497,475	972,618	54.0
Other	<u>1,936,880</u>	<u>5,087,747</u>	(61.9)
Total revenues	<u>3,819,874</u>	<u>6,570,270</u>	
Expenses:			
Depreciation	979,374	740,110	32.3
Other operating expenses	1,562,577	1,144,253	36.6
Non-operating expenses	<u>23,238</u>	<u>25,874</u>	(10.2)
Total expenses	<u>2,565,189</u>	<u>1,910,237</u>	
Change in net assets	1,254,685	4,660,033	(73.1)
Total net assets, beginning of year (as restated)	<u>19,518,221</u>	<u>14,858,188</u>	31.4
Total net assets, end of year (as restated)	<u>\$ 20,772,906</u>	<u>\$ 19,518,221</u>	

Lease revenues decreased by \$124,386 due to the write-off of uncollectible accounts receivable.

Capital grants and contributions increased by \$524,857 mainly due to the increased funding from the Federal Aviation Administration and Arizona Department of Transportation for the Authority's capital improvements.

Other revenues decreased by \$(3,150,867) primarily as a result of the decrease in land sales.

The Authority's expenses increased by 34.3%. The more significant factors contributing to the increase are the increase in depreciation due to a significant increase in capital improvements and related professional services and operating expenses of the capital improvements.

Budgetary Highlights

The Authority prepares a budget annually which is submitted to the Board of Directors for approval during the spring of each year. The budget is used as a management tool; it is not a legally binding document. The budget and annual comparisons of actual to budget is prepared on the budgetary basis of accounting. There were no significant changes to the budget during the year. Although the budget is not legally adopted, it is an important management tool used throughout the fiscal year. See page 12 for a presentation of the budget to actual comparison for the fiscal year.

Capital Assets and Debt Administration

The Kingman Airport Authority, Inc.'s capital assets as of June 30, 2008 amount to \$17,441,158 (net of accumulated depreciation), a net increase of 16%. The capital assets include runways and taxiways; buildings; improvements; machinery and equipment. A large majority of these assets were contributed to the airport directly or were purchased with the aid of federal and state grants.

Major capital asset events during the current fiscal year included the following:

- ◆ Various rail upgrades.
- ◆ Terminal upgrades.
- ◆ Completed construction of Aircraft rescue fire fighting and administration building.
- ◆ Completed construction of Bonanza/Railroad infrastructure.
- ◆ Runway upgrades.

The following table provides a breakdown of the capital assets of the Kingman Airport Authority, Inc. at June 30, 2008 and 2007.

Capital Assets at June 30, 2008 and 2007 (restated)
(Net of depreciation)

	<u>2008</u>	<u>2007</u>
Land improvements	\$12,982,014	\$11,607,071
Buildings and improvements	3,632,012	963,985
Furniture, machinery and equipment	561,379	565,666
Construction in progress	<u>265,753</u>	<u>1,938,902</u>
	<u>\$17,441,158</u>	<u>\$15,075,624</u>

Long-term Debt

At the end of the current fiscal year, the Kingman Airport Authority, Inc. had total long-term obligations outstanding of \$521,091. This debt consists of two separate bank notes with payments made monthly. The Authority reduced its debt by \$60,804 by making regularly scheduled principal and interest payments.

The following schedule shows the outstanding debt of the Kingman Airport Authority, Inc. (both current and long-term) as of June 30, 2008 and 2007. Further detail on the Kingman Airport Authority, Inc.'s outstanding debt may be found in Note 3.D. on page 22.

**Outstanding Debt
June 30, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
Notes payable	\$ <u>521,091</u>	\$ <u>581,895</u>

Economic Factors and Next Year's Budgets and Rates

The general economy in Kingman is flat, as the community is experiencing very little construction and few new home sales. Job layoffs are being experienced throughout the community and consumer confidence is reserved. Fuel costs have come down, but there is less discretionary income for travel and consumer purchases so tourism within the community is down. Job creation within the industrial park is only through the attraction of new industrial opportunities rather than local business expansion.

Kingman continues to attract interest from East Coast and Midwest companies looking to expand operations to keep up with growth in the Southwest, however the number of inquiries is less than half of those experienced last year. Kingman's location makes the community suited logistically for a manufacturer to service California, Arizona, Nevada, Utah and New Mexico overnight. Proceeds from land sales within the industrial park as a result of growth will be utilized to construct basic infrastructure and capital improvements projects for the airfield and industrial park.

Lease revenues and user fees will continue to fund the Authority's operations. Lease opportunities are being pursued and encouraged along with promoting land sales. New leases include an annual automatic adjustment of 3% of the base rate effective July 1, of each year and as older leases expire, they will be replaced with language incorporating automatic adjustments as well.

Financial contact

This financial report is designed to provide a general overview of the Kingman Airport Authority, Inc.'s finances for all of those with an interest in the government's finances and to demonstrate accountability for the use of public funds. Questions about any of the information provided in this report, or requests for additional financial information should be addressed to:

Kingman Airport Authority, Inc.
Accounting Department
7000 Flightline Drive
Kingman, AZ 86401
928-757-2134

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Basic Financial Statements

KINGMAN AIRPORT AUTHORITY, INC.
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2008

	Business-type Activities - Enterprise Fund
Assets	
Current assets	
Cash and cash equivalents	\$ 3,297,307
Receivables, net	
Accounts receivable	102,064
Intergovernmental receivable	332,631
Deposits	<u>1,618</u>
Total current assets	<u>3,733,620</u>
Noncurrent assets	
Intangible (net)	142,071
Capital assets	
Non-depreciable	265,753
Depreciable (net)	<u>17,175,405</u>
Total noncurrent assets	<u>17,583,229</u>
Total assets	<u>21,316,849</u>
Liabilities	
Current liabilities	
Accounts payable	19,521
Accrued wages and benefits	3,331
Notes payable	<u>320,166</u>
Total current liabilities	<u>343,018</u>
Noncurrent liabilities	
Notes payable	<u>200,925</u>
Total liabilities	<u>543,943</u>
Net assets	
Invested in capital assets, net of related debt	17,062,138
Unrestricted	<u>3,710,768</u>
Total net assets	<u>\$ 20,772,906</u>

The notes to the basic financial statements are an integral part of this statement.

KINGMAN AIRPORT AUTHORITY, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND
NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Business-type Activities - Enterprise Fund
Operating revenues	
Leases	\$ 385,519
Intergovernmental	473,474
Airport usage fees	<u>87,213</u>
Total operating revenues	<u>946,206</u>
Operating expenses	
Personnel	483,941
Payroll taxes and benefits	115,889
Office expense	25,078
Professional services	253,715
Maintenance and repairs	47,790
Motor pool	24,217
Operational expense	600,203
Depreciation	979,374
Amortization	<u>11,744</u>
Total operating expenses	<u>2,541,951</u>
Operating loss	<u>(1,595,745)</u>
Nonoperating revenues (expenses)	
Contributions and donations	17,156
Interest revenue	174,644
Application fees	17,000
Miscellaneous revenues	5,996
Interest expense	(23,238)
Land sales	<u>1,161,397</u>
Total nonoperating revenues (expenses)	<u>1,352,955</u>
Income (loss) before contributions and transfers	(242,790)
Capital contributions	<u>1,497,475</u>
Change in net assets	1,254,685
Total net assets, beginning of year (restated)	<u>19,518,221</u>
Total net assets, end of year	<u>\$ 20,772,906</u>

The notes to the basic financial statements are an integral part of this statement.

KINGMAN AIRPORT AUTHORITY, INC.
STATEMENT OF REVENUES AND EXPENSES -
BUDGET AND ACTUAL - (BUDGETARY BASIS)
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Leases	\$ 511,280	\$ 385,519	\$ (125,761)
Intergovernmental	434,797	473,474	38,677
Contributions and donations	-	17,156	17,156
Interest revenue	92,000	174,644	82,644
Application fees	14,000	17,000	3,000
Land sales	4,492,573	1,161,397	(3,331,176)
Capital contributions	5,633,565	1,497,475	(4,136,090)
Miscellaneous revenues	5,771	5,996	225
Airport usage fees	19,169	87,213	68,044
Total operating revenues	<u>11,203,155</u>	<u>3,819,874</u>	<u>(7,383,281)</u>
Operating expenses			
Personnel	548,494	483,941	64,553
Payroll taxes and benefits	133,326	115,889	17,437
Office expense	50,100	25,078	25,022
Professional services	313,000	253,715	59,285
Maintenance and repairs	75,000	47,790	27,210
Motor pool	50,020	24,217	25,803
Operational expense	425,300	600,203	(174,903)
Debt service	-	84,042	(84,042)
Capital outlay	9,403,426	3,577,435	5,825,991
Total operating expenses	<u>10,998,666</u>	<u>5,212,310</u>	<u>5,786,356</u>
Excess (deficiency) of revenues over expenditures	\$ <u>204,489</u>	\$ <u>(1,392,436)</u>	\$ <u>(1,596,925)</u>

The notes to the basic financial statements are an integral part of this statement.

KINGMAN AIRPORT AUTHORITY, INC.
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Business-type Activities - Enterprise Fund
Cash flows from operating activities	
Receipts from customers	\$ 1,069,577
Payments to suppliers	(1,047,371)
Payments to employees	(484,156)
Contributions and donations	17,156
Application fees	17,000
Miscellaneous revenues	5,996
Customer deposits received	700
Net cash flows used for operating activities	<u>(421,098)</u>
Cash flows from capital and financing activities	
Capital grants and contributions	1,432,090
Purchases of capital assets and intangibles	(3,577,435)
Principal paid on notes payable	(60,804)
Interest paid on notes payable	(23,238)
Proceeds from sale of land	1,161,397
Net cash flows used for capital and financing activities	<u>(1,067,990)</u>
Cash flows from investing activities	
Interest	174,644
Net cash flows from investing activities	<u>174,644</u>
Net change in cash and cash equivalents	(1,314,444)
Cash and cash equivalents, beginning of year	<u>4,611,751</u>
Cash and cash equivalents, end of year	\$ <u>3,297,307</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	\$ (1,595,745)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation and amortization	991,118
Contributions and donations	17,156
Application fees	17,000
Miscellaneous revenues	5,996
Change in assets/liabilities:	
Accounts receivable	123,371
Customer deposits	700
Accounts payable	19,521
Accrued wages and benefits	<u>(215)</u>
Net cash used for operating activities	\$ <u>(421,098)</u>

The notes to the basic financial statements are an integral part of this statement.

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KINGMAN AIRPORT AUTHORITY, INC.
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Kingman Airport Authority, Inc. (Authority) have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the Authority's more significant accounting policies follows.

A. Reporting entity

The Kingman Airport Authority, Inc. (Authority) was incorporated in the State of Arizona in July 1992, as a nonprofit corporation. The Authority operates, maintains, and manages the Kingman Airfield and Industrial Park, collectively known as the Airport for the City of Kingman, Arizona. The Authority is administered by the board of directors who are elected by the membership of the Authority.

The Kingman Airport Authority, Inc. was formed by transferring the assets and liabilities of the Mohave County Airport Authority, Inc., which related to the Kingman Airfield and Industrial Park, to the Kingman Airport Authority, Inc. The Authority leases the real property at no cost from the City of Kingman, Arizona under a long term lease. Primary sources of funding for the Authority are rents from subleasing real property, proceeds from the sale of real property located in the Kingman Airport Industrial Park, and grants from other governmental units. Functions financed by the Authority include management, maintenance, and development of the Kingman Airfield and the Kingman Airport Industrial Park. The Authority is considered to be a political subdivision of the State of Arizona, Mohave County and the City of Kingman, Arizona with the responsibility of carrying out the function of airport management.

In evaluating how to define the Authority, for financial reporting purposes, management has identified no potential component units. The decision to include a potential component unit in the reporting entity would have been made by applying criteria set forth by accounting principles generally accepted in the United States of America. Generally, component units are legally separate organizations for which the elected officials of the primary government (i.e., the Authority) are financially accountable. The primary government is financially accountable for a potential component unit if it: appoints a voting majority of the potential component unit's governing body; and, either is able to impose its will on the potential component unit or there is a possibility of the potential component unit to provide specific financial benefits to, or impose specific financial burdens on the primary government.

KINGMAN AIRPORT AUTHORITY, INC.
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2008

In addition, a primary government may be financially accountable for a potential component unit even though the potential component unit may have a separately elected governing board, a board appointed by another government, or a jointly appointed board if the potential component unit is fiscally dependent on the primary government (e.g., the primary government must approve the potential component unit's budget, tax rates, etc.). Because no potential component units were identified in defining the Authority's reporting entity, none have been included in the Authority's reporting entity.

B. Government-wide and fund financial statements

Government-wide financial statements are not presented, as the Authority only engages in business-type activities. The Authority only has one fund, an enterprise fund. Accordingly, the statement of net assets, the statement of revenues, expenses and changes in net assets and the statement of cash flows report information for that single enterprise fund only.

C. Measurement focus, basis of accounting, and financial statement presentation

The statement of net assets and statement of revenues, expenses and changes in fund net assets are reported using the *economic resource measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Such revenue is subject to review by the funding agency, which may result in disallowance in subsequent periods.

The Authority reports the following proprietary fund:

The *Enterprise Fund* is used to account for operations (a) that are financed and operated in manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for the business-type activities subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

KINGMAN AIRPORT AUTHORITY, INC.
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2008

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, cash and investments held by the State Treasurer, and highly liquid investments with maturities of three months or less from the date of acquisition.

State statutes authorize the Authority to invest in obligations of the U.S. Treasury and U.S. agencies, certificates of deposit in eligible depositories, repurchase agreements, obligations of the State of Arizona or any of its counties or incorporated cities, authorities or duly organized school districts, improvement districts in this state and the State Treasurer's Local Government Investment Pool. Investments are stated at fair value.

2. Receivables

All trade receivables are shown net of an allowance for uncollectible receivables. The Authority annually reviews the balance in the reserve account during the budget process to determine if, based on past history, the account is adequate to cover current trade receivables. If judged to be inadequate, an additional amount is budgeted and recorded over the course of the year. There was an allowance for uncollectibles at \$81,763 at June 30, 2008 which is netted against accounts receivable. Receivables from governments are assumed to be entirely collectible and are not included in this analysis.

3. Capital assets

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year.

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest capitalized was calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

KINGMAN AIRPORT AUTHORITY, INC.
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2008

Depreciation on all assets is provided on a straight-line basis over the following estimated useful lives:

Land improvements	10-30 years
Buildings and improvements	7-30 years
Furniture, machinery and equipment	3-8 years

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

The Authority adopts an annual nonappropriated budget as a management control device. The budget is prepared on the modified accrual basis, which is a different basis of accounting than is used to present the financial statements. (See Note 4.C. for reconciliation).

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Prior period adjustment

In the prior fiscal year, the Authority did not properly capitalize capital assets and understated amortization expense. Therefore, the following adjustments are necessary to restate net assets at the beginning of the year.

	<u>Business-type Activities</u>
Net assets, July 1, 2007, as previously stated	\$ 19,109,043
Prior year understatement of amortization expense	(20,473)
Acquisition of capital of assets in prior years	<u>429,651</u>
Net assets, July 1, 2007, as restated	\$ <u>19,518,221</u>

KINGMAN AIRPORT AUTHORITY, INC.
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2008

B. Assets

1. Deposits and investments

Deposits and investments at June 30, 2008 consist of the following:

Deposits	
Cash in bank	\$ 15,157
Investments	
Money Market Mutual Fund	1,121,006
Certificates of deposit	<u>2,161,144</u>
Total deposits and investments	<u>3,297,307</u>
Total cash and equivalents	<u>\$ 3,297,307</u>

Deposits - The Authority's deposits at June 30, 2008, were entirely covered by federal depository insurance.

Investments - The Money Market Mutual Fund is not subject to custodial credit risk. All other investments of the Authority are uninsured and unregistered with the securities held by the counterparty's trust department or agent in the Authority's name.

KINGMAN AIRPORT AUTHORITY, INC.
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2008

2. Capital assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	Beginning Balances (restated)	Increases	Decreases	Ending Balances
Business-type Activities:				
Capital assets not being depreciated:				
Construction in Progress	\$ <u>1,938,902</u>	\$ <u>3,273,542</u>	\$ <u>(4,946,691)</u>	\$ <u>265,753</u>
Total capital assets, not being depreciated	<u>1,938,902</u>	<u>3,273,542</u>	<u>(4,946,691)</u>	<u>265,753</u>
Capital assets being depreciated:				
Land improvements				
Airfield	10,232,000	789,269	(378,736)	10,642,533
Industrial park	7,235,800	1,423,973	(40,236)	8,619,537
Buildings and improvements				
Airfield	1,591,258	2,763,779	(157,537)	4,197,500
Industrial park	2,060	-	-	2,060
Furniture, machinery, and equipment	<u>825,414</u>	<u>58,817</u>	<u>(47,682)</u>	<u>836,549</u>
Total capital assets being depreciated	<u>19,886,532</u>	<u>5,035,838</u>	<u>(624,191)</u>	<u>24,298,179</u>
Less accumulated depreciation for:				
Land improvements				
Airfield	(3,772,763)	(467,555)	378,401	(3,861,917)
Industrial park	(2,087,966)	(364,024)	33,851	(2,418,139)
Buildings and improvements				
Airfield	(628,921)	(84,622)	146,476	(567,067)
Industrial park	(412)	(69)	-	(481)
Furniture, machinery and equipment	<u>(259,748)</u>	<u>(63,104)</u>	<u>47,682</u>	<u>(275,170)</u>
Total accumulated depreciation	<u>(6,749,810)</u>	<u>(979,374)</u>	<u>606,410</u>	<u>(7,122,774)</u>
Total capital assets, being depreciated, net	<u>13,136,722</u>	<u>4,056,464</u>	<u>(17,781)</u>	<u>17,175,405</u>
Business-type activities capital assets, net	<u>\$ 15,075,624</u>	<u>\$ 7,330,006</u>	<u>\$ (4,964,472)</u>	<u>\$ 17,441,158</u>

KINGMAN AIRPORT AUTHORITY, INC.
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2008

Depreciation expense was charged to functions/programs as follows:

Business-type activities:	
Airfield	\$ 615,281
Industrial Park	<u>364,093</u>
Total depreciation expense - business-type activities	<u>\$ 979,374</u>

3. Construction commitments

The Authority has several active construction projects at June 30, 2008. The projects involve infrastructure, ramp reconstruction and other miscellaneous projects. At fiscal year end the Authority's commitments with contractors were as follows:

Business-type		
Project	Spent-to-date	Remaining Commitment
North/south ramp reconstruction	\$ 40,851	\$ 27,922
New apron ramp	79,251	2,533
Flightline drive reconstruction	110,792	20,855
Olympic Sewer	<u>34,859</u>	<u>161,380</u>
	<u>\$ 265,753</u>	<u>\$ 212,690</u>

4. Intangible assets

The following is a summary of intangible assets recorded in the Enterprise Fund. These intangibles consist of site plans and a promotional video and are being amortized over periods from 7 to 15 years on a straight-line basis.

Intangible assets	\$ 185,192
Less: accumulated amortization	<u>(43,121)</u>
Net intangible assets	<u>\$ 142,071</u>

C. Line of credit payable

The Authority has a line of credit with a local financial institution to provide short-term cash flow up to \$150,000. There was no balance outstanding at June 30, 2008.

KINGMAN AIRPORT AUTHORITY, INC.
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2008

D. Notes payable

Notes payable at June 30, 2008, consisted of the following.

Description	Interest Rates(%)	Maturity	Outstanding Principal June 30, 2008
Mohave State bank loan	4.90	06/15/15	\$ 240,711
Mission bank loan	3.85	07/01/08	<u>280,380</u>
Total notes payable			<u>\$ 521,091</u>

Changes in long-term obligations for the year ended June 30, 2008 are as follows:

	July 1, 2007	Increases	Decreases	June 30, 2008	Due within One Year
Business-type Activities:					
Notes payable	\$ <u>581,895</u>	\$ <u>-</u>	\$ <u>(60,804)</u>	\$ <u>521,091</u>	\$ <u>320,166</u>

The Mission Bank Loan was refinanced at July 1, 2008, see Note 4.F. for further information.

Debt service requirements on long-term debt at June 30, 2008 are as follows:

		<u>Business-type Activities</u>	
Year Ending June 30,		<u>Principal</u>	<u>Interest</u>
2009		\$ 320,166	\$ 10,866
2010		41,779	8,873
2011		43,873	6,779
2012		46,072	4,580
2013		<u>69,201</u>	<u>2,495</u>
		<u>\$ 521,091</u>	<u>\$ 33,593</u>

KINGMAN AIRPORT AUTHORITY, INC.
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2008

NOTE 4 - OTHER INFORMATION

A. Risk management

The Kingman Airport Authority, Inc., is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Authority is insured by Arizona State Workers Compensation Insurance Fund for potential job-related accidents.

B. Lease revenues

The Authority subleases, under operating leases, certain property and improvements.

The operating leases have varying terms ranging from a month-to-month basis to twenty-five years. Most leases extending over a one-year period contain a rent adjustment based on the consumer price index. Some leases contain an option to renew for a similar term.

Minimum future rentals to be received on non-cancelable leases as of June 30, 2008, for each of the next five years and in the aggregate are:

Year ended June 30,	
2009	\$ 20,100
2010	20,100
2011	19,600
2012	19,600
2013	19,600
Thereafter	<u>4,683</u>
Total minimum future rentals	\$ <u>103,683</u>

KINGMAN AIRPORT AUTHORITY, INC.
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2008

C. Budgetary basis of accounting

The adopted budget of the Enterprise Fund was prepared on the modified accrual basis. Consequently, the following adjustments are necessary to reconcile budgetary to GAAP basis.

	Enterprise Fund	
	Total Operating Revenues	Total Operating Expenses
Statement of Revenues, Expenditures and Changes in Fund Net Assets	946,206	2,541,951
Nonoperating revenues and expenses	1,376,193	23,238
Adjustments to present data on the budgetary basis:		
additions	1,497,475	3,638,239
subtractions	-	(991,118)
Statement of Revenues, and Expenses - Budget and Actual - (Budgetary Basis)	<u>\$ 3,819,874</u>	<u>\$ 5,212,310</u>

D. Retirement plans

Defined contribution pension plan

The Authority's 401(a) Retirement Plan is a defined contribution pension plan established by the Authority and administered by Nationwide Life Insurance to provide benefits at retirement to all full-time employees of the Authority. At June 30, 2008, there were six plan members. Plan members are required to contribute 6% of covered salary. The Authority is also required to contribute 6% of covered salary. Plan provisions and contribution requirements are established and may be amended by the Authority's governing board. Covered payroll for the year totaled \$345,733. Employee contributions totaled \$20,744 and employer contributions totaled \$20,744 for the year.

KINGMAN AIRPORT AUTHORITY, INC.
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2008

E. FAA commitment for future improvements

The Authority is obligated by the Federal Aviation Administration (FAA) to invest an amount equal to the net proceeds of land sales at the Kingman Airport Industrial Park in improvements to and operations of the Kingman Airfield within five years from the date of the sale. The amount obligated to be spent for airfield improvements and operations at June 30, 2008, is \$3,837,304. The Authority complied with all regulations regarding its sale of land at the Kingman Airfield and Industrial Park during the 2007-08 fiscal year.

Changes in the commitment for future improvements during the year ended June 30, 2008, were as follows:

Balance, beginning of year	\$ 5,003,525
Add: land sales during year	994,379
Deduct: prior year expenses at Kingman Airfield applied	-
Deduct: expenses at Kingman Airfield	<u>(2,160,600)</u>
	<u>\$ 3,837,304</u>

F. Subsequent event

Subsequent to June 30, 2008, the maturity date of the original promissory note from Mission Bank in the amount of \$400,000 dated July 1, 2003 was extended to July 1, 2011 and the interest rate was increased to 4.34%.

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SINGLE AUDIT ACT REPORTS SECTION

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Board of Directors of the
Kingman Airport Authority, Inc.

We have audited the financial statements of the Kingman Airport Authority, Inc. (Authority) as of and for the year ended June 30, 2008, and have issued our report thereon dated December 10, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Kingman Airport Authority, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Kingman Airport Authority, Inc.'s internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 08-1 through 08-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Kingman Airport Authority, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Cronstrom, Osuch & Company, P.C.

Cronstrom, Osuch & Company, P.C.

December 10, 2008

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

The Board of Directors of the
Kingman Airport Authority, Inc.

Compliance with Requirements Applicable to Each Major Program

We have audited the compliance of the Kingman Airport Authority, Inc. (Authority) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The Kingman Airport Authority, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Kingman Airport Authority, Inc.'s management. Our responsibility is to express an opinion on Kingman Airport Authority, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Kingman Airport Authority, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Kingman Airport Authority, Inc.'s compliance with those requirements.

In our opinion, the Kingman Airport Authority, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control over Compliance in Accordance with OMB Circular A-133

The management of the Kingman Airport Authority, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Kingman Airport Authority, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of Kingman Airport Authority, Inc. as of and for the year ended June 30, 2008, and have issued our report thereon dated December 10, 2008. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the members the Board of Directors, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Cronstrom, Osuch & Company, P.C.

Cronstrom, Osuch & Company, P.C.

December 10, 2008

KINGMAN AIRPORT AUTHORITY, INC.
SCHEDULE OF FEDERAL AWARDS AND FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2008

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: *Unqualified*
Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified not considered to be material weakness? X yes _____ none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified not considered to be material weaknesses? _____ yes X none reported

Type of auditor's report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? _____ yes X no

Identification of major programs:

CFDA Number

Name of Federal Program or Cluster

20.106

Airport Improvement Program

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? _____ yes X no

KINGMAN AIRPORT AUTHORITY, INC.
SCHEDULE OF FEDERAL AWARDS AND FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS

RECEIVABLES

08-1	<i>Condition/ Context</i>	Accounts and intergovernmental receivable balances were not reconciled at year-end.
	<i>Criteria</i>	Internal control procedures.
	<i>Effect</i>	Internal control weakness and significant adjustments were necessary to properly state the balances at June 30, 2008.
	<i>Cause</i>	Clerical errors.
	<i>Recommendation</i>	In order to strengthen internal control procedures and ensure that balances reported in the general ledger are properly stated, the Authority should reconcile receivable balances to subsidiary ledgers.
	<i>Corrective Action Plan</i>	The Authority concurs with this recommendation and will ensure that receivable balances are reconciled to the subsidiary ledger.
	<i>Contact Person</i>	Brenda Chastain, Director of Corporate Administration.

KINGMAN AIRPORT AUTHORITY, INC.
SCHEDULE OF FEDERAL AWARDS AND FINDINGS AND QUESTIONED COSTS
FISCAL YEAR ENDED JUNE 30, 2008

SECTION II - FINANCIAL STATEMENT FINDINGS (CONCL'D)

FINANCIAL REPORTING

08-2	<i>Condition/ Context</i>	The Authority did not have adequate internal controls over financial reporting.
	<i>Criteria</i>	Internal control procedures.
	<i>Effect</i>	Internal control weakness.
	<i>Cause</i>	The Authority did not have procedures to prepare the financial statements and related disclosures. There were no year-end closing procedures to ensure that assets and liabilities subject to accrual were properly stated at year-end and that revenues and expenses were recorded in the correct fiscal year.
	<i>Recommendation</i>	In order to strengthen internal controls over financial reporting, the Authority should develop and implement procedures for year-end closing of the accounting records. In addition, the Organization should develop procedures to format the trial balance for financial statement presentation and prepare related disclosure schedules.
	<i>Corrective Action Plan</i>	The Authority concurs with this recommendation and will evaluate the cost-benefit factor of compiling its own financial statements and related disclosures. Until the cost-benefit factor is properly evaluated, the Authority will continue to contract with its external auditors to compile the financial statements and related disclosures.
	<i>Contact Person</i>	Brenda Chastain, Director of Corporate Administration.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted.

SECTION IV - SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

The Authority was not subject to a Single Audit in the prior year.

KINGMAN AIRPORT AUTHORITY, INC.
SCHEDULE OF EXPENSES OF FEDERAL AWARDS
FISCAL YEAR ENDED JUNE 30, 2008

<u>Grantor Agency</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Expenses</u>
U.S. Department of Transportation			
Airport Improvement Program	20.106	3-04-0021-015	\$ 291,080
Airport Improvement Program	20.106	3-04-0021-017	64,108
Airport Improvement Program	20.106	3-04-0021-018	13,339
Airport Improvement Program	20.106	3-04-0021-019	<u>143,044</u>
 TOTAL EXPENDITURES OF FEDERAL AWARDS			 \$ <u>511,571</u>

Note: Schedule is prepared on the accrual basis of accounting.

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